PROSPECT CAPITAL CORP
Form 497
February 23, 2012

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The information in this preliminary prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed pursuant to Rule 497
File No. 333-176637

Subject to Completion, dated February 22, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated October 21, 2011)

12,000,000 Shares

Prospect Capital Corporation

Common Stock

This is an offering of 12,000,000 shares of the common stock of Prospect Capital Corporation. Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management LLC manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

Our common stock is traded on the NASDAQ Global Select Market under the symbol "PSEC." The last reported closing sales price for our common stock on February 21, 2012 was $11.26 per share and our most recently determined net asset value per share was $10.69 as of December 31, 2011 ($10.59 on an as adjusted basis solely to give effect to our distribution with a record date of January 31, 2012 and our issuance of common stock on January 25, 2012 and February 17, 2012 in connection with our dividend reinvestment plan).

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-8 of this prospectus supplement and on page 9 of the accompanying prospectus.

	Per Share	Total
Price to the public	$	$
Underwriting discounts and commissions	$	$
Proceeds to Prospect Capital Corporation (before expenses)	$	$

The underwriter has an option for a period of 30 days from the date of this prospectus supplement to purchase up to an aggregate of 1,800,000 additional shares of our common stock at $ per share.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

The SEC has not approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Barclays Capital

Prospectus Supplement dated February , 2012

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as "intends," "intend," "intended," "goal," "estimate," "estimates," "expects," "expect," "expected," "project," "projected," "projections," "plans," "seeks," "anticipates," "anticipated," "should," "could," "may," "will," "designed to," "foreseeable future," "believe," "believes" and "scheduled" and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- our future operating results,
- our business prospects and the prospects of our portfolio companies,
- the impact of investments that we expect to make,
- our contractual arrangements and relationships with third parties,
- the dependence of our future success on the general economy and its impact on the industries in which we invest,
- the ability of our portfolio companies to achieve their objectives,
- difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company,
- the adequacy of our cash resources and working capital,

the timing of cash flows, if any, from the operations of our portfolio companies,

the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments,

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service,

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- the NASDAQ Global Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and

- the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, ability to obtain certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the "Securities Act."

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in the prospectus.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" in this prospectus supplement and in the accompanying prospectus and the other information included in this prospectus supplement and the accompanying prospectus.

The terms "we," "us," "our" and "Company," refer to Prospect Capital Corporation; "Prospect Capital Management," "Investment Adviser" and "PCM" refer to Prospect Capital Management LLC; and "Prospect Administration" and the "Administrator" refer to Prospect Administration LLC.

The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended and the rules, regulations and interpretations promulgated thereunder, collectively, the "1940 Act." We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

Typically, we concentrate on making investments in companies with annual revenues of less than $500 million and enterprise values of less than $250 million. Our typical investment involves a secured loan of less than $50 million with some form of equity participation. From time to time, we acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as "target" or "middle market" companies and these investments as "middle market investments".

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. Many of our investments to date have been in energy-related industries. We have made no investments to date in the real estate or mortgage industries, and we do not intend currently to focus on such investments.

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of December 31, 2011, we held investments in 75 portfolio companies. The aggregate fair value as of December 31, 2011 of investments in these portfolio companies held on that date is approximately $1.717 billion. Our portfolio across all our long-term debt had an annualized current yield of 12.2% as of December 31, 2011.

Recent Developments

Dividends

On February 6, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.101450 per share for February 2012 to holders of record on February 29, 2012 with a payment date of March 23, 2012;
- $0.101475 per share for March 2012 to holders of record on March 30, 2012 with a payment date of April 20, 2012; and
- $0.101500 per share for April 2012 to holders of record on April 30, 2012 with a payment date of May 24, 2012.

Recent Investment Activity

On January 4, 2012, Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions") sold its gas gathering and processing assets ("Gas Solutions") for a sale price of $200.5 million, including a potential earnout of $28.0 million that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of $9.97 million paid to us, Energy Solutions received approximately $148.69 million in cash and an additional $10.0 million is being held in escrow. Currently, our loans to Energy Solutions remain outstanding and are collateralized by the cash held by Energy Solutions as a result of the sale transaction. The accounting for the sale of Gas Solutions has yet to be finalized, but will not result in any dividend income or realized gain recognition by us until cash payments are received from Energy Solutions.

On January 9, 2012, Arrowhead General Insurance Agency, Inc. repaid the $27.0 million loan receivable to us.

On January 12, 2012, we made a follow-on investment of $16.5 million to purchase 86.8% of the Class D Notes in CIFC Funding 2011-I, Ltd.

On January 17, 2012, we provided $18.33 million of secured second-lien financing to a financial services processing company purchased by a leading private equity sponsor.

On January 31, 2012, Aircraft Fasteners International, LLC repaid the $7.44 million loan receivable to us.

On February 2, 2012, NRG Manufacturing Inc. ("NRG") was sold to an outside buyer for $123.26 million. In conjunction with the sale, the $37.22 million loan that was outstanding was repaid. We also received a $26.94 million make-whole fee for early repayment of the outstanding loan, which will be recorded as interest income in the quarter ending March 31, 2012. Further, we received a $3.8 million advisory fee for the transaction, which will be recorded as other income in the quarter ending March 31, 2012. After expenses, including the make whole and advisory fees discussed above, $40.89 million was available to be distributed to stockholders. While our 408 shares of NRG common stock represented 67.1% of the ownership, we only received net proceeds of $25.99 million as our contribution to the escrow amount was proportionately higher than the other shareholders. In connection with the sales, we will recognize a realized gain of $24.81 million in the results for the quarter ended March 31, 2012. In total, we received proceeds of $93.98 million at closing. In addition, there is $11.13 million being held in escrow of which 80% is due to us upon release of the escrowed amounts. This will be recognized as additional gain when and if received.

On February 15, 2012, we provided $25 million of secured second-lien financing to a leading provider of Web security and wide area network (WAN) optimization solutions.

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Convertible Bonds Buyback

Between January 30, 2012 and February 2, 2012, we repurchased $5.0 million of our August 2016 convertible bonds at a price of 97.5% of par, including commissions. The transactions will result in our recognizing $10,000 of loss in the quarter ended March 31, 2012.

Prospect Capital InterNotes®

On February 16, 2012, we entered into a Selling Agent Agreement (the "Selling Agent Agreement") with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to $500,000,000 of Prospect Capital InterNotes® (the "InterNotes Offering"). Additional agents appointed by the Company from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

Stock Issuance in Connection with Dividend Reinvestment Plan

On January 25, 2012, we issued 85,252 shares of our common stock in connection with the dividend reinvestment plan.

On February 17, 2012, we issued 69,864 shares of our common stock in connection with the dividend reinvestment plan.

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The Offering

Common stock offered by us, excluding the underwriter's option to purchase additional shares	12,000,000 shares.
Common stock outstanding prior to this offering	109,846,167 shares.
Common stock outstanding after this offering, excluding the underwriter's option to purchase additional shares	121,846,167 shares.
Use of proceeds	We expect to use the net proceeds from this offering initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. See "Use of Proceeds" in this prospectus supplement.
The NASDAQ Global Select Market symbol	PSEC
Risk factors	See "Risk Factors" in this prospectus supplement and the accompanying prospectus and other information in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before you decide whether to make an investment in shares of our common stock.
Current distribution rate	On February 6, 2012, we announced that our Board of Directors declared monthly distributions in the following amounts and with the following dates: $0.101450 per share for February 2012 to holders of record on February 29, 2012 with a payment date of March 23, 2012; $0.101475 per share for March 2012 to holders of record on March 30, 2012 with a payment date of April 20, 2012; and $0.101500 per share for April 2012 to holders of record on April 30, 2012 with a payment date of May 24, 2012, representing an annualized yield (based on the February 2012 distribution) of approximately 10.81% based on our February 21, 2012 closing stock price of $11.26 per share. Such distributions are expected to be payable out of earnings. Our distribution levels are subject to change or discontinuance at any time in the discretion of our Board of Directors. Our future earnings and operating cash flow may not be sufficient to support a dividend.

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Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed $722.5 million. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)[1]	%
Offering expenses borne by us (as a percentage of offering price)[2]	%
Dividend reinvestment plan expenses[3]	None
Total stockholder transaction expenses (as a percentage of offering price)[4]	%
Annual expenses (as a percentage of net assets attributable to common stock)[4]:	
Management Fees[5]	3.33%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income) [6]	2.74%
Interest payments on the credit facility	1.45%
Interest payments on the 2010 Notes[7]	0.80%
Interest payments on the 2011 Notes[8]	0.81%
Acquired Fund Fees and Expenses[9]	0.01%
Other expenses[10]	1.85%
Total annual expenses[6,10]	10.99%

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed all $722.5 million that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 129.33	$ 278.73	$ 418.04	$ 728.64

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The income incentive fee under our Investment Advisory Agreement with Prospect Capital Management is unlikely to be material assuming a 5% annual return and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher. In addition, while the example assumes reinvestment of all dividends and other distributions at net asset value, or NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See "Dividend Reinvestment Plan" for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses (including the cost of debt, if any, and other expenses) may be

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greater or less than those shown.

1 The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering.

2 The offering expenses of this offering are estimated to be approximately $300,000.

3 The expenses of the dividend reinvestment plan are included in "other expenses".

4 The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.

5 Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities). Although no plans are in place to borrow the full amount under our line of credit, assuming that we borrowed $1,072.5 million, the 2% management fee of gross assets equals approximately 3.33% of net assets. See "Business Management Services Investment Advisory Agreement" in the accompanying prospectus and footnote 6 below.

6 Based on an annualized level of incentive fee paid during our second fiscal quarter ended December 31, 2011, all of which consisted of an income incentive fee. For a more detailed discussion of the calculation of the two-part incentive fee, see "Management Services Investment Advisory Agreement" in the accompanying prospectus.

7 On December 21, 2010, the Company issued $150 million in aggregate principal amount of 6.25% Convertible Senior Notes due 2015, which we refer to as the 2010 Notes. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2010 Notes.

8 On February 18, 2011, the Company issued $172.5 million in aggregate principal amount of 5.5% Convertible Senior Notes due 2016, which we refer to as the 2011 Notes. Between January 30, 2012 and February 2, 2012, we repurchased $5.0 million of our 2011 Notes at a price of 97.5% of par, including commissions. The transactions will result in our recognizing $10,000 of loss in the quarter ended March 31, 2012. See "Business General" and "Risk Factors Risks Related to our Business" in the accompanying prospectus for more detail on the 2011 Notes. The 2011 Notes and the 2010 Notes are referred to collectively as the Senior Convertible Notes.

9 The Company's stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of December 31, 2011. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company's average net assets used in calculating this percentage was based on net assets of approximately $1,172 million as of December 31, 2011.

10 "Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended December 31, 2011 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement, based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business Management Services Administration Agreement" in the accompanying prospectus.

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed financial information below with the Financial Statements and Notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2011, 2010, 2009, 2008 and 2007 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months and six months ended December 31, 2011 and 2010 has been derived from unaudited financial data. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-11 for more information.

	For the Three Months Ended December 31,		For the Six Months Ended December 31,		For the Year/Period Ended June 30,				
	2011	2010	2011	2010	2011	2010	2009	2008	2007
	(in thousands except data relating to shares, per share and number of portfolio companies)								
Performance Data:									
Interest income	$ 45,528	$ 27,362	$ 87,415	$ 56,283	$ 134,454	$ 86,518	$ 62,926	$ 59,033	$ 30,084
Dividend income	19,637	3,371	27,187	5,565	15,092	15,366	22,793	12,033	6,153
Other income	2,098	2,567	8,003	6,664	19,930	12,675	14,762	8,336	4,444
Total investment income	67,263	33,300	122,605	68,512	169,476	114,559	100,481	79,402	40,681
Interest and credit facility expenses	(9,759)	(2,261)	(18,719)	(4,522)	(17,598)	(8,382)	(6,161)	(6,318)	(1,903)
Investment advisory expense	(17,952)	(9,672)	(33,132)	(19,197)	(46,051)	(30,727)	(26,705)	(20,199)	(11,226)
Other expenses	(3,044)	(2,287)	(6,369)	(4,718)	(11,606)	(8,260)	(8,452)	(7,772)	(4,421)
Total expenses	(30,755)	(14,220)	(58,220)	(28,437)	(75,255)	(47,369)	(41,318)	(34,289)	(17,550)
Net investment income	36,508	19,080	64,385	40,075	94,221	67,190	59,163	45,113	23,131
Realized and unrealized gains (losses)	27,984	12,860	40,007	17,445	24,017	(47,565)	(24,059)	(17,522)	(6,403)
Net increase in net assets from operations	$ 64,492	$ 31,940	$ 104,392	$ 57,520	$ 118,238	$ 19,625	$ 35,104	$ 27,591	$ 16,728
Per Share Data:									
Net increase in net assets from operations(1)	$ 0.59	$ 0.38	$ 0.96	$ 0.73	$ 1.38	$ 0.33	$ 1.11	$ 1.17	$ 1.06
Distributions declared per share	$ (0.31)	$ (0.30)	$ (0.61)	$ (0.60)	$ (1.21)	$ (1.33)	$ (1.62)	$ (1.59)	$ (1.54)
Average weighted shares outstanding for the period	109,533,742	84,091,152	109,246,616	79,134,173	85,978,757	59,429,222	31,559,905	23,626,642	15,724,095
Assets and Liabilities Data:									
Investments	$ 1,716,603	$ 918,221	$ 1,716,603	$ 918,221	$ 1,463,010	$ 748,483	$ 547,168	$ 497,530	$ 328,222
Other assets	85,619	157,874	85,619	157,874	86,307	84,212	119,857	44,248	48,280
Total assets	1,802,222	1,076,095	1,802,222	1,076,095	1,549,317	832,695	667,025	541,778	376,502
Amount drawn on credit facility	252,000		252,000		84,200	100,300	124,800	91,167	
2010 Notes	150,000	150,000	150,000	150,000	150,000				
2011 Notes	172,500		172,500		172,500				
Amount owed to related parties	18,087	10,104	18,087	10,104	7,918	9,300	6,713	6,641	4,838
Other liabilities	37,151	12,801	37,151	12,801	20,342	11,671	2,916	14,347	71,616
Total liabilities	629,738	172,905	629,738	172,905	434,960	121,271	134,429	112,155	76,454
Net assets	$ 1,172,484	$ 903,190	$ 1,172,484	$ 903,190	$ 1,114,357	$ 711,424	$ 532,596	$ 429,623	$ 300,048

Investment Activity Data:									
No. of portfolio companies at period end	75	58	75	58	72	58	30	29(2)	24(2)
Acquisitions	$ 154,697	$ 140,933	$ 377,272	$ 281,884	$ 953,337	$ 364,788(3)	$ 98,305	$ 311,947	$ 167,255
Sales, repayments, and other disposals	$ 120,206	$ 62,915	$ 166,261	$ 131,063	$ 285,562	$ 136,221	$ 27,007	$ 127,212	$ 38,407
Annualized current yield at end of period for performing debt investments(4)	12.2%	15.3%	12.2%	15.3%	12.3%	16.2%	14.6%	15.5%	17.3%

(1) Per share data is based on average weighted shares for the period.

(2) Includes a net profits interest in Charlevoix Energy Trading LLC ("Charlevoix"), remaining after loan was paid.

(3) Includes $207,126 of acquired portfolio investments from Patriot Acquisition.

(4) Excludes equity investments and non-performing loans.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and in the accompanying prospectus, together with all of the other information included in this prospectus supplement and in the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set forth below and in the accompanying prospectus are not the only risks we face. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our common stock could decline, we could reduce or eliminate our dividend and you could lose all or part of your investment.

Capital markets have recently been in a period of disruption and instability. These market conditions have materially and adversely affected debt and equity capital markets in the United States and abroad, which have had, and may in the future have, a negative impact on our business and operations.

The U.S. and foreign capital markets have recently been in a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While these conditions appear to be improving, they could continue for a prolonged period of time or worsen in the future. In addition, while these conditions persist, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our annual meeting of stockholders held on December 8, 2011, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. In addition, our ability to incur indebtedness or issue other senior securities (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue other senior securities. The debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, recent market conditions have made, and may in the future make, it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the recent extreme volatility and dislocation in the capital markets, many business development companies have faced, and may in the future face, a challenging environment in which to raise capital. Recent significant changes in the capital markets affecting our ability to raise capital have affected the pace of our investment activity. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

Our most recent NAV was calculated on December 31, 2011 and our NAV when calculated effective March 31, 2012 may be higher or lower.

Our most recently estimated NAV per share is $10.59 on an as adjusted basis solely to give effect to our distribution with a record date of January 31, 2012 and our issuance of common stock on January 25, 2012 and February 17, 2012 in connection with our dividend reinvestment plan, versus $10.69 determined by us as of December 31, 2011. NAV per share as of March 30, 2012, may be higher or lower than $10.59 based on potential changes in valuations and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to December 31, 2011. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from an independent valuation firm, our Investment Advisor and the audit committee of our Board of Directors.

If we sell common stock at a discount to our NAV per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during the one-year period ending on December 9, 2012, as described in this prospectus supplement and in the accompanying prospectus. The issuance or sale by us of shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information about recent sales below NAV per share, see "Recent Sales of Common Stock Below Net Asset Value" in this prospectus supplement and for additional information and hypothetical examples of these risks, see "Sales of Common Stock Below Net Asset Value" in this prospectus supplement and in the accompanying prospectus.

We may in the future choose to pay dividends in our own stock, in which case our stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend could be payable in our stock for dividends paid on or before December 31, 2012 with respect to any taxable year ending on or before December 31, 2011. The IRS has also issued private letter rulings on cash/stock dividends paid by regulated investment companies and real estate investment trusts if certain requirements are satisfied, and we have received such a ruling permitting us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2012 and August 31, 2013. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock (whether pursuant to Revenue Procedure 2010-12, a private letter ruling, or otherwise).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(All figures in this item are in thousands except share, per share and other data)

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We seek to be a long-term investor with our portfolio companies. From our July 27, 2004 inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy. Since then, we have widened our strategy to focus in other sectors of the economy and continue to reduce our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 13% of our investment portfolio.

The aggregate value of our portfolio investments was $1,716,603 and $1,463,010 as of December 31, 2011 and June 30, 2011, respectively. During the six months ended December 31, 2011, our net cost of investments increased by $212,477, or 14.8%, as a result of thirteen new investments, several follow-on investments and a revolver advance of $373,943, accrued payment-in-kind interest of $3,329 and accretion of purchase discount of $2,575, while we received full repayment on six investments, sold one investment, received several partial prepayments, amortization payments and a revolver repayment totaling $166,261 and recognized a net realized loss of $1,109. During the six months ended December 31, 2011, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan, which is expected to be approved by the bankruptcy court, will eliminate our debt position with no payment to us. As a result, we determined that the impairment of Deb Shops was other-than-temporary and recorded a realized loss of $14,607 for the full amount of the amortized cost. This realized loss was primarily offset by our sale of 392 shares of NRG common stock in December 2011 for which we realized a gain of $12,131.

Compared to the end of last fiscal year (ended June 30, 2011), net assets increased by $58,127 or 5.2% during the six months ended December 31, 2011, from $1,114,357 to $1,172,484. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of $14,895, dividend reinvestments of $5,393, and another $104,392 from operations. These increases, in turn, were offset by $66,553 in dividend distributions to our stockholders. The $104,392 increase in net assets resulting from operations is net of the following: net investment income of $64,385, net realized loss on investments of $1,109 and an increase in net assets due to changes in net unrealized appreciation of investments of $41,116.

Second Quarter Highlights

Investment Transactions

On October 13, 2011 and October 19, 2011, we made investments of $9,319 and $1,358, respectively, to purchase 32.9% of the unrated subordinated notes to Apidos CLO VIII ("Apidos").

On October 24, 2011, we made a senior secured investment of $6,000 in Renaissance Learning, Inc. ("Renaissance"), a leading provider of technology based school improvement and student assessment programs. The second lien loan bears interest in cash at the greater of 12.0% or Libor plus 10.50% and has a final maturity on October 19, 2018.

On October 28, 2011, we made a follow-on investment of $8,200 in Empire Today, LLC ("Empire"). The follow-on first lien note bears interest in cash at 11.375% and has a final maturity on February 1, 2017.

On October 31, 2011, IEC-Systems, LP and Advanced Rig Services, LLC ("IEC/ARS") repaid the $20,909 loan receivable to us.

On November 4, 2011, we made a secured second lien investment of $15,000 to support the acquisition of Injured Workers Pharmacy LLC ("IWP"), a specialty pharmacy services company, in a private equity backed transaction. The secured loan bears interest in cash at the greater of 12.0% or Libor plus 7.50% and has a final maturity on November 4, 2017.

On November 21, 2011, we received an equity distribution from the sale of our shares of Fairchild Industrial Products, Co. ("Fairchild") common and preferred stock, realizing $1,549 of gross proceeds and a total gain of $960 on settlement of the investment.

On December 2, 2011, we made a secured second-lien follow-on investment of $7,500 to American Gilsonite Company ("American Gilsonite") for a dividend recapitalization. After the financing, we received a $1,383 dividend as a result of our equity holdings in American Gilsonite. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 2.5% and has a final maturity on March 10, 2016.

On December 22, 2011, we made a secured first lien investment of $31,083 to VanDeMark Chemical, Inc. ("VanDeMark"), a specialty chemical manufacturer. The secured loan bears interest in cash at the greater of 12.2% or Libor plus 10.2% and has a final maturity on December 31, 2014.

On December 22, 2011, we made an investment of $17,900 to purchase 13.2% of the secured Class D Notes and 86.0% of the unsecured Class E Notes in CIFC Funding 2011-I, Ltd ("CIFC"). The $2,500 secured Class D Notes bear interest in cash at Libor plus 5.0% and has a final maturity date on January 19, 2023. The $15,400 unsecured Class E Notes bear interest in cash at Libor plus 7.0% and has a final maturity on January 19, 2023.

On December 28, 2011, we made a secured first-lien follow-on investment of $4,750 in Energy Solutions in order to facilitate the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine Holdings, LLC ("Freedom Marine"). We invested $1,250 of equity in Energy Solutions and $3,500 of debt to Vessel Holdings LLC. The first lien note bears interest in cash at 18.0% and has a final maturity of December 12, 2016.

On December 28, 2011, we made a secured debt investment of $10,000 to support the acquisition of Hoffmaster Group, Inc. ("Hoffmaster"). After the financing we received a repayment of the loan that was previously outstanding. The $10,000 second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.50% and has a final maturity date of January 3, 2019.

On December 28, 2011, we made a secured debt investment of $37,218 to support the recapitalization of NRG. After the financing, we received repayment of the $13,080 loan that was previously outstanding and a dividend of $6,711 as a result of our equity holdings. In addition, we sold 392 shares of NRG common stock for $13,266, realizing a gain of $12,131. Our remaining 408 shares of NRG common stock held by us back to NRG were sold on February 2, 2012. (See *Recent Developments*.) The secured first lien note bears interest at 15.0% and has a final maturity on December 27, 2016.

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On December 29, 2011, Iron Horse Coiled Tubing, Inc. ("Iron Horse") repaid the $11,338 loan receivable to us.

On December 30, 2011, we provided $8,000 of senior secured debt to Hi-Tech Testing Inc. ("Hi-Tech"), a provider of non-destructive testing services to detect leaks and other defects in pipes, vessels, and related equipment for the oil and gas pipeline, chemical and paper and pulp industries. The secured note bears interest in cash at 11.0% and has a final maturity of September 26, 2016.

On December 30, 2011, we exited our investment in Mac & Massey Holdings, LLC ("Mac & Massey") and received $10,239 for repayment of the $9,323 loan receivable to us and monetization of our equity position, resulting in a realized gain of $820. We recognized $694 of accelerated purchase discount accretion in the quarter ended December 31, 2011.

Equity Issuance

On October 21, 2011, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to $750,000 of additional debt and equity securities in the public market.

On October 25, 2011, November 22, 2011 and December 22, 2011, we issued shares of our common stock in connection with the dividend reinvestment plan of 89,078, 94,213 and 90,677, respectively.

Dividend

On November 7, 2011, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- $0.101375 per share for November 2011 to holders of record on November 30, 2011 with a payment date of December 22, 2011;
- $0.101400 per share for December 2011 to holders of record on December 30, 2011 with a payment date of January 25, 2012; and
- $0.101425 per share for January 2012 to holders of record on January 31, 2012 with a payment date of February 17, 2012.

Investment Holdings

As of December 31, 2011, we continue to pursue our investment strategy and continue to diversify the portfolio. In May 2007, we changed our name to "Prospect Capital Corporation" and terminated our policy to invest at least 80% of our net assets in energy companies. Since that time, we have reduced our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 13% of our investment portfolio.

At December 31 2011, approximately $1,716,603 or 146.4% of our net assets are invested in 75 long-term portfolio investments and 5.2% of our net assets are invested in money market funds.

During the six months ended December 31, 2011, we originated $377,272 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our performing loan portfolio's annualized current yield decreased from 12.3% as of June 30, 2011 to 12.2% as of December 31, 2011 across all long-term debt investments. We

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expect Prospect's current asset yield may continue to decline modestly as we continue to reduce credit risk. Generally, we have seen a decrease in interest rates on loans issued during our fiscal year ended June 30, 2011 and the six months ending December 31, 2011 in comparison to the rates in effect prior to June 30, 2010 as we continue to reduce the risk profile of the portfolio. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio companies, we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person.

As of December 31, 2011, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., C&J Cladding LLC, Energy Solutions, Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), NRG, Nupla Corporation and R-V Industries, Inc. ("R-V"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft"), Smart, LLC, and Sport Helmets Holdings, LLC ("Sport Helmets").

The following is a summary of our investment portfolio by level of control at December 31, 2011 and June 30, 2011, respectively:

	December 31, 2011				June 30, 2011			
Level of Control	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Control	$ 273,496	16.6%	$ 386,552	22.5%	$ 262,301	18.3%	$ 310,072	21.2%
Affiliate	59,488	3.6%	67,872	4.0%	56,833	4.0%	72,337	4.9%
Non-control/Non-affiliate	1,315,227	79.8%	1,262,179	73.5%	1,116,600	77.7%	1,080,601	73.9%
Total Portfolio	$ 1,648,211	100.0%	$ 1,716,603	100.0%	$ 1,435,734	100.0%	$ 1,463,010	100.0%

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The following is our investment portfolio presented by type of investment at December 31, 2011 and June 30, 2011, respectively:

	December 31, 2011				June 30, 2011			
Type of Investment	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**	**Cost**	**Percent of Portfolio**	**Fair Value**	**Percent of Portfolio**
Revolving Line of Credit	$ 1,991	0.1%	$ 2,093	0.1%	$ 7,144	0.5%	$ 7,278	0.5%
Senior Secured Debt	929,526	56.4%	886,130	51.7%	822,582	57.3%	789,981	54.0%
Subordinated Secured Debt	529,715	32.1%	480,700	28.0%	491,188	34.2%	448,675	30.7%
Subordinated Unsecured Debt	70,165	4.3%	70,251	4.1%	54,687	3.8%	55,336	3.8%
CLO Debt	14,334	0.9%	14,334	0.8%		%		%
CLO Residual Interest	42,793	2.6%	39,362	2.3%		%		%
Preferred Stock	31,602	1.9%	22,471	1.3%	31,979	2.2%	25,454	1.7%
Common Stock	19,907	1.2%	179,993	10.5%	19,865	1.4%	116,076	7.9%
Membership Interests	6,017	0.4%	15,303	0.9%	6,128	0.4%	15,392	1.1%
Overriding Royalty Interests		%	2,210					